January 26, 2009

American Recovery and Reinvestment Act:
Tax Cuts for Middle-class Families and American Businesses

The tax cuts in the American Recovery and Reinvestment Act will jumpstart the economy by returning money to the hands of 95% of American workers, and encouraging new job-creating investments by businesses large and small, that will transform our economy for years to come, such as in renewable energy and energy efficiency.

Tax Cuts for American Families ($185 billion over 10 years)

- The Make Work Pay Tax Cut provides immediate and sustained tax relief to 95 percent of American workers through a refundable tax credit of up to $500 per worker ($1,000 per couple filing jointly), phasing out at $200,000 for couples filing jointly and $100,000 for single filers. These tax cuts would be distributed to millions of families by reducing tax withholding from workers' paychecks.
- These tax cuts are a downpayment on President Obama's plan for permanent middle-class tax relief.
- Cuts taxes for the families of more than 16 million children through an expansion of the child tax credit. By expanding the child tax credit, the plan would provide a new tax cut for more than 6 million children, and increase the existing credit for more than 10 million children.
- Expands the Earned Income Tax Credit by providing tax relief to families with three or more children and increasing marriage penalty relief.
- Helps more than 4 million additional students attend college with a new, $2,500 tax credit for families, which is partially refundable. As a result, the nearly one-fifth of high school seniors who currently receive no tax credit will receive a tax cut to make college affordable for the first time.
- Helps first-time homebuyers and strengthens the housing market by enhancing the current $7,500 credit for first-time home purchases with the removal of the current repayment requirement.

Business Tax Incentives to Create Jobs and Spur Investment ($20 billion over 10 years)

- Allows businesses to improve cash flow by providing a 5-year carryback of net operating losses (NOLs). This would allow businesses to write off 90% of losses incurred in 2008 and 2009 against taxes assessed over the previous five years (current law limits NOL carryback to the previous two years). This would not be available to companies that have benefited under the TARP.
- Helps businesses quickly recover costs of new capital investments by extending the increased bonus depreciation for businesses making investments in new plants and equipment in 2009.
- Spurs small business investment by extending small business expensing, which doubles of the amount that small businesses can immediately write off on their taxes for capital investments and for purchase of new equipment in 2009.
- Provides small businesses with relief by repealing the onerous 3% withholding tax on payments to government contractors.
- Provides incentives to create new jobs with business tax credits for hiring recently discharged unemployed veterans and youth that have been out of work and out of school for the 6 months prior to hire.

Tax Incentives for Renewable Energy and Energy Efficiency to Spur Energy Savings and Create Green Jobs ($20 billion over 10 years)

- Three-year extension of the production tax credit (PTC) for electricity derived from wind (through 2012) and for electricity derived from biomass, geothermal, hydropower, landfill gas, waste-to-energy and marine facilities (through 2013). Also permits businesses that place new facilities in service during 2009 and 2010 to claim either a 30 percent investment tax credit (ITC) instead of the production tax credit, or apply for a grant of up to 30 percent of the cost of building a new renewable energy facility from the Energy Department. These provisions will help speed up investment in new facilities and will address current renewable energy credit market concerns.
- Promotes energy efficient investments in homes by extending and expanding tax credits through 2010 for investments such as new furnaces, energy-efficient windows and doors, or insulation. Increases the credit from 10 percent to 30 percent of the cost of the investment and raises the credit cap from $500 to $1,500, saving American families money on their energy bills.
- Provides clean renewable energy bonds for State and local governments, electric cooperatives and public power companies to finance facilities that generate electricity from renewable resources, including wind; closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; marine renewable; and trash combustion.
- Qualified energy conservation bonds for State and local governments to make a variety of energy conservation investments, such as investments in public infrastructure, loans and grants to retrofit homes, and funding for research to reduce greenhouse gas emissions.
- Establishes an enhanced R&D tax credit for research expenditures in the fields of fuel cells, battery technology, renewable energy, energy conservation technology, efficient transmission and distribution of electricity, and carbon capture and sequestration, in 2009 and 2010.
- Increases incentives to install pumps that dispense alternative fuels including E85, biodiesel, hydrogen, and natural gas. More alternative fuel pumps are needed for consumers who are seeking to fill up flex-fuel and alternative fuel vehicles.

Tax Incentives for State and Local Economic Development ($50 billion over 10 years)

- Reinvigorates the market for State and local government bonds. The bill would enhance the marketability for State and local government bonds, which will reduce the costs they incur in financing State and local infrastructure projects.
- Provides relief for America's hardest hit areas. The bill would provide a separate tranche of tax credit and tax-exempt bonds for development in "Recovery Zones" (areas hit particularly hard by high rates of job loss, poverty, home foreclosure, and general distress).
- Creates a new bond-financing program for school construction, rehabilitation, or repair. The bill would provide State and local governments with $22.4 billion in tax credit bonds over the next two years to supplement Federal and State efforts to modernize our nation's schools.
- Provides temporary grant program to States in lieu of tax credits to support investment in low-income housing.